BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

In the Matter of Integrated Resource Planning For the Provision of Standard Offer Supply Service By the Delmarva Power & Light Company Under 26 Del. C. Section 1007(c) and (d): Review and Approval of the Request for Proposals for the Construction of New Generation Resources Under 26 Del. C. Section 1007(d)	))))))))	**PSC Docket No. 06-241**

WRITTEN COMMENTS OF CONECTIV ENERGY SUPPLY, INC.
IN RESPONSE TO THE CONSULTANTS' REPORTS

Conectiv Energy Supply, Inc. ("Conectiv") submits these Comments in support of its proposal to sell energy backed capacity to Delmarva Power & Light Company ("Delmarva") from a new 177 MW natural gas fired combined cycle plant located at its Hay Road Station in Wilmington, Delaware. Conectiv's proposal is unique in that it uses the highly reliable combined cycle technology but does not expose Delmarva and its customers to the volatile natural gas spot market often associated with such technology. In addition, unlike the other two bids submitted in this process, Conectiv's proposal does not contain any must-take provision. Thus, it permits Delmarva and its customers to take full advantage of all demand side management, conservation, customer-sited generation, and renewal energy supply opportunities.

I

INTRODUCTION

Delmarva's restructuring plan, as initially approved by the Delaware Public Service Commission ("DPSC"), required Delmarva to provide Standard Offer Service ("SOS") to its retail customers at frozen rates until the end of transition periods that varied by customer class. Prior to the end of the initial transition periods, the DPSC, in Order in Docket No. 01-194, extended the transition periods for all Delmarva customers until April 30, 2006.

At the conclusion of the transition period, the DPSC authorized Delmarva to continue providing SOS to its customers. In late 2005 and early 2006 Delmarva conducted a DPSC approved solicitation process under which it acquired the wholesale power needed to meet the requirements of its SOS customers beginning on May 1, 2006. When the cost of the wholesale power supply was reflected in SOS rates, they increased by close to 60% above frozen levels.

In response to that rate increase the Delaware legislature passed the Electric Utility Retail Consumer Supply Act of 2006 (the "Act"). The Act required Delmarva to issue a Request for Proposals ("RFP") for the purpose of considering offers for long term power supply from new generation facilities. The Act also required the DPSC, the Energy Office, the Office of Management and Budget and the Controller General (the "State Agencies") to oversee Delmarva's RFP process.

In compliance with the Act, on August 1, 2006, Delmarva filed a draft RFP with the State Agencies. The State Agencies reviewed the draft RFP, considered the

comments of their independent consultant (the "IC") and the public and, in Order Nos. 7066 and 7081, ordered Delmarva to issue a modified RFP. Delmarva issued the RFP in final form on November 1, 2006.

Three bidders submitted proposals in response to the RFP – Bluewater Wind ("BWW"), NRG and Conectiv. BWW proposed two alternative wind farms each consisting of 200 wind turbines located over a thirty square mile area in the Atlantic Ocean. NRG proposed a coal gasification project ("IGCC") located adjacent to its Indian River Power Plant. Conectiv proposed a 177 MW natural gas fired combined cycle generating facility located at its existing Hay Road Power Plant located in Wilmington, Delaware.

The IC and Delmarva's consultants independently scored the bids pursuant to their agreed to scoring system. While the scores were not exactly the same, both sets of consultants scored Conectiv the highest, BWW the second highest and NRG the lowest. The two lower ranked bidders – BWW and NRG – have raised the types of complaints that would typically be expected from lower ranked participants in any scoring system - "the bid was rigged" or "the scoring system was flawed" or "the awarded scores were not fairly assigned".

BWW and NRG, in their written comments, are asking the State Agencies to nit pick through the fine details of the scoring criteria and the scores awarded. Each is asking the State Agencies to override their consultants' scoring and to direct Delmarva to enter into an agreement with one of their lower ranked proposals.

Rather than attempting to respond to alleged flaws in the process Conectiv urges the State Agencies to focus on the "big picture". The Legislature passed the Act to try to

give SOS customers relief from the unprecedented rate increases they experienced at the end of the rate freeze period. There is no reading of the Act that could lead to the conclusion that the Legislature told Delmarva and the State Agencies to "go forth and find a way to further increase the rates of the SOS customers." However, that is exactly what BWW and NRG are proposing.

The BWW and NRG proposals are anywhere from half a billion dollars to almost four billion dollars more costly than merely continuing to purchase SOS power from the market.[1] No reconsideration of the scoring system is going to reduce the excessive costs of these proposals. Conectiv submits, therefore, that any award of a contract to either BWW or NRG would be an aberrant outcome of the Legislature's desire to bring some relief to the customers who incurred the rate increases of 2006.

In contrast to the BWW and NRG proposals, the Conectiv proposal results in costs to SOS customers that approximate the market,[2] uses a proven, reliable technology and provides Delmarva and its customers the flexibility to take full advantage of opportunities presented by demand side management and customer sited renewables. Conectiv is confident that the two consulting teams gave the Conectiv proposal the ranking it deserved.

The RFP evaluation process should not be a popularity contest. Conectiv relied upon its proposal to speak for itself and did not join BWW and NRG in public relations campaigns that led to supporting statements and letters from members of the public. However, a review of the presentations of the participants at the public sessions and the descriptions of the proposals in the news media revealed a number of misunderstandings

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1 Interim IC Report, Table 1, p. 9.

2 Id.

regarding the proposals. In an effort to eliminate misunderstandings regarding its proposal, on March 19, 2007, Conectiv notified the DPSC that it was withdrawing its objection to release of proprietary information contained in its proposal. In these Comments to the Consultants' Reports Conectiv will further clarify misunderstandings that seem to persist.

II

DISCUSSION

A. THERE IS NOTHING SURPRISING ABOUT THE FACT THAT CONECTIV'S PROPOSAL, WHICH BEST MEETS SOS CUSTOMER REQUIREMENTS, WAS SELECTED AS THE HIGHEST RANKED OF THE THREE PROPOSALS.

There have been suggestions that there is something suspicious about Delmarva's affiliate, Conectiv, receiving the highest ranking of the three proposals. However, a comparison of the proposals reveals that such an outcome was reasonable and should have been expected.

In its originally proposed RFP Delmarva sought to limit proposals to a maximum of 200 MW to match the requirements of 70% of its SOS customer load. BWW's wind farm and NRG's IGCC plant are not practical for use at 200 MW. Therefore, both entities sought modification to the RFP to permit proposals up to 400 MW. The State Agencies decided to "broaden the net" so as to expand the types of technologies that would qualify for participation in the process.[3] The State Agencies' "big funnel" approach did not, however, guarantee award of a contract to any such power producer. Instead it challenged those offerors requiring oversized facilities to structure their proposals in a way that efficiently met customer requirements.

[3] Delmarva's Consultants' Report, p. 5.

BWW proposed construction of 200 3 MW wind turbines located over 30 square miles of ocean. BWW could not, of course, guarantee exactly where and when wind would be powering its turbines. However, its proposal required Delmarva to purchase all such energy produced, up to a cap of 400 MWh in any hour, whether or not it was needed at the time.[4]

NRG proposed the sale of 400 MW from its 600 MW IGCC located in Millsboro. While NRG would require Delmarva to purchase the entire 400 MW of capacity, it permitted Delmarva to reduce energy purchases down to a minimum of 280 MW in any hour.[5] NRG's proposal, therefore, has a must-take obligation for energy purchases at the 280 MWh level.

The problem with both BWW's and NRG's proposals is that their technology, rather than SOS customer needs, dictate purchases by Delmarva. BWW is proposing a 600 MW wind farm to obtain "better economics". However, as with all wind generation, there is always the possibility that wind will be unavailable and energy produced will be less than customer requirements during an unknown number of hours during the year. In addition, because of the size of the BWW wind farm, Delmarva will be required to purchase 400 MW from BWW in every hour when the facility is operating at at least two thirds of maximum capacity. However, because Delmarva's average hourly load requirement is only 289 MWh,[6] its purchases from BWW will also exceed customer load requirements during an unknown number of hours of the year.

While NRG's proposal does not suffer from the potential for under-deliveries inherent in BWW's proposal, the two proposals are, in some ways, very similar. Like

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4 IC Report, p. 7.
5 IC Report, p. 9.
6 Delmarva Consultant's Report, p. 11.

BWW's wind farm, NRG's IGGC must be constructed on a larger scale than is needed by Delmarva. Because of NRG's must-take obligation of 280 MWh, Delmarva will be required to purchase unneeded energy during many hours of the year.

Conectiv currently owns and operates a fleet of more than 2000 MW of gas-fired combined cycle generation. It, therefore, has a vast amount of experience and expertise in this technology. Gas fired combined cycle generation is not restricted by the size limitations of off-shore wind farm or IGCC technology. Instead, gas fired turbines are available in a multitude of sizes and configurations. Conectiv reviewed the original RFP and the Written Comments of Tom Shaw for DE Public Hearing on the RFP, dated October 17, 2006[7] and determined that a 177 MW gas fired combined cycle generating plant designed to follow customer load would best meet Delmarva's SOS customer requirements.[8]

Conectiv's proposal gives Delmarva the right to dispatch its generation when needed to serve customer load. Conectiv's proposed generation facility can commence production of energy within fifteen to twenty minutes of start-up by Delmarva, it can be shut down within a matter of minutes of notification from Delmarva and it need not continue operation for an extended period of time. Consequently, unlike NRG and BWW, Conectiv will never sell too little or too much energy to Delmarva and Delmarva will never have to purchase supplemental power or sell excess power to match customer needs. Therefore, under Conectiv's proposal, Delmarva and its customers will not be exposed to market risk for purchases or sales of power in the competitive market.

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[7] See DPSC website at www.state.de.us/delpsc/electric/irp/rfpshawcomments.pdf

[8] In an additional effort to structure its proposal to meet the criteria of the RFP Conectiv decoupled its price from the cost of natural gas, and proposed price adjustments during the 10 year contract term that would be adjusted for inflation and a coal index.

Conectiv was not alone in concluding that a natural gas fired combined cycle generating plant would best meet the needs of Delmarva's SOS customers. The IC, at page 32 of its Interim Report, expressed concern that additional analysis might reveal the need for additional generation on the peninsula. The IC suggested that such additional generation

> ". . . might entail installation of a combustion turbine or natural gas- fired combined cycle plant to mitigate increases in locational capacity prices and/or congestion at a favorable site".

This, of course, is exactly what Conectiv is currently proposing[9] – and on very favorable terms. Conectiv is offering to sell the energy from its facility at prices that do not expose customers to the natural gas costs normally associated with operation of such a facility. And Conectiv is proposing to sell the capacity from its facility at prices that may very well be less than post-RPM capacity prices.

B ALTHOUGH BWW PROPOSED THE ONLY NON-EMITTING RESOURCE IN RESPONSE TO THE RFP, IT IS NOT NECESSARILY THE MOST ENVIRONMENTALLY FRIENDLY OPTION FOR SERVICE TO SOS CUSTOMERS.

Of the three bidders who responded to the RFP only BWW proposed a non-fossil fuel based technology. Those in the State who advocate use of non-fossil fuel based generation have had no choice but to get behind BWW and to urge the State Agencies to require Delmarva to enter into a power purchase agreement ("PPA") with BWW.[10] Conectiv submits, however, that selecting BWW simply because it is the only proposed

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[9] In the event that the additional capacity requirements identified do not exactly match Conectiv's proposed facility, Conectiv has included in its offer an option to increase the size of the facility to 360 MW and to increase the length of its PPA to 15 years.

[10] Care should be taken not to assume that the wind farm proposal is totally non-emitting. Inherent in the wind farm proposal is the requirement that Delmarva purchase power generated from unknown sources with unknown emissions during times that the wind is not available to provide needed energy for SOS customers.

renewable project, would be very shortsighted.[11] In fact, there is good reason to believe that adoption of the BWW proposal is not the most environmentally friendly option available for SOS customers.

If the State Agencies direct Delmarva to enter into a PPA with BWW, Delaware will, as they say at the poker tables, be "all in" with the off shore wind project until well after the year 2030. However, the off shore wind project is fraught with uncertainty. There are questions regarding the impact of yet-to-be-written rules for off-shore development and performance problems experienced at a number of existing off shore wind farm facilities.[12] In addition, the IC seriously questioned the financeability of BWW's proposal because of the uncertainty of projected revenues from Green House Gas credits and sales of excess power.[13] Even Peter Krause, Director of Investor Relations at Vestas, the Danish manufacturer of wind turbines, has warned that the installation and maintenance costs associated with off shore wind farms are "going to be very disappointing for many politicians across the world."[14] Thus, selection of BWW could force Delmarva's SOS customers to rely upon power supply from a technology that does not deliver as promised.

Just as important, however, are the opportunities that will be missed if the State Agencies decide that Delmarva and its SOS customers must be "all in" with BWW. Such opportunities are currently being considered by the General Assembly's Sustainable

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11 The IC also recognized the danger in simply adopting the sole renewable option presented. At page 36 of the IC Interim Report, the IC suggested the possibility of conducting a "renewables-only" procurement to seek bids from all types of renewables.

12 IC Report, p. 20.

13 IC Report, p. 22.

14 *Across the Atlantic, Slowing Breezes,* The New York Times, March 7, 2007, p. H5.

Energy Utility Task Force (the "Task Force").[15] Based upon its analysis, the Task Force has concluded that, with the right programs, energy consumption in the State can be reduced by 30% by 2015 and that over 300 MW of renewables can be installed in homes and businesses by 2019. The Task Force has further concluded that, by implementation of these programs, households can reduce energy bills by $1,100 per year and an additional 1,000 to 3,000 jobs can be created in the service and manufacturing sectors. The Task Force projects that these goals can be achieved through a combination of energy efficiency and customer sited renewables.[16]

In order for the Task Force's programs to achieve the projected results, however, customer conservation and customer sited renewables must result in reduction of energy consumption and costs. If Delmarva is directed to accept BWW's proposal, or for that matter, NRG's proposal, the must-take provisions will prohibit Delmarva from backing down purchases to reflect reduction in SOS customer load. In other words, conservation and use of customer sited renewables by SOS customers will not translate into any reduction in Delmarva purchases under the BWW or NRG proposals. While Delmarva should be able to re-sell the excess energy it is forced to purchase, any losses that it incurs because its sale price is less than its purchase price, would be passed through to the customers who were expecting savings from their conservation and renewable siting efforts. Thus, adoption of the BWW or NRG proposal will, at the very least, undermine the efforts of the Task Force.

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[15] Conectiv has not independently verified the recommendations of the Task Force and, thus, should not be viewed as endorsing or supporting those recommendations. Conectiv includes this discussion here for the purpose of reminding the State Agencies that these issues are being considered at a senior level of the government and urging the State Agencies to consider the potential impact that their determination in this matter might have on that activity.

[16] Information obtained from Task Force web site at www.seu-de.org.

In contrast to the BWW and NRG proposals, the Conectiv proposal fully accommodates the programs proposed by the Task Force. Conectiv is offering to sell 177 MW of unforced capacity and associated energy to Delmarva under the terms of a 10 year contract. And Conectiv's proposal contains no must-take provision. As a result, Delmarva is free to use all or none of the energy associated with the 177 MW of capacity in each of the hours of the 10 year contract. Therefore, Delmarva can back down purchases from Conectiv whenever the competitive market provides opportunities for less expensive power supply or whenever customer conservation or use of customer sited renewables reduces the need for power. [17]

In addition, after 10 years, the BWW and NRG contracts will still have 10 or 15 more years to run while the Conectiv contract will be at an end. The shorter Conectiv contract gives Delmarva and the State of Delaware an early opportunity to reevaluate the State's energy supply options and to consider use of then existing state of the art renewable technologies.

Therefore, while BWW's wind farm may, on the surface, appear to be the most environmentally friendly of the three proposals, it may not be as environmentally friendly as the combination of conservation, small scale customer sited renewables, and future adoption of state of the art generation technology made available by the flexibility of Conectiv's proposal.

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[17] The capacity sale component of Conectiv's proposal is fixed throughout the 10 year term of its agreement and cannot be adjusted like the energy component. However, any excess capacity arising from conservation or renewables installed by Delmarva customers will have far less impact than the capacity sales being proposed by NRG and BWW which are either greater in size or longer in term than Conectiv's. In addition, recent estimates of capacity prices under PJM's Reliability Pricing Model program suggest that the capacity price under Conectiv's proposal might actually be less than the market price for capacity and any excess capacity purchased from Conectiv by Delmarva could be resold into the market at a profit that would be passed through to ratepayers.

C CUSTOMERS WHO CAN LEAST AFFORD IT COULD BE FORCED TO BEAR THE ENTIRE BURDEN OF ANY UNECONOMIC AGREEMENT BETWEEN DELMARVA AND BWW OR NRG.

If the BWW and NRG projects were commercially viable BWW and NRG could rely upon sales to the market to cover costs and provide an adequate return on investment. However, neither of these projects can survive without a long term contract under which sales are made at above market prices.

In the case of BWW, this should come as no surprise. Off shore wind projects, while not uncommon in Europe, have never been commercially viable without tax support from the local or federal government. Even in Denmark, which the BWW supporters point to as an example of the viability of off shore wind, the projects have only been built with the support of tax dollars. Construction of such projects in Denmark was, in recent years, curtailed when tax support was withdrawn.[18]

BWW is following the Denmark model here. It is relying upon subsidies in the form of the federal production tax credit[19] and a supplemental "wind tax," to be paid by Delmarva SOS customers in the form of higher than market prices, to make its project viable.[20]

A number of BWW supporters have expressed a willingness to pay the wind tax as long as it goes to support the BWW project.[21] However, notwithstanding the intentions of the BWW supporters, the term of the BWW PPA – 20 to 25 years - is a long time to remember their commitment. And the wind tax could get quite expensive

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18 *Across the Atlantic, Slowing Breezes*, The New York Times, p. H5, March 7, 2007 (copy attached)

19 IC Report, p. 23.

20 NRG's request to receive above market rates for its sales should, similarly, be considered to be a "coal tax".

21 Conectiv is unaware of any such sentiment expressed in support of the higher prices that would be paid by SOS customers under the NRG proposal.

during that time. Delmarva and its SOS customers will not only be exposed to expensive power purchased from BWW. They will also be exposed to the costs of power purchases from the market during periods when the wind power is unavailable.[22]

Once Delmarva starts to purchase the BWW power or the NRG power, Delaware is likely to see the mirror image of its experience during the first six years of deregulation. During those first six years of deregulation, when Delmarva's rates were artificially depressed, retail marketers made little attempt to compete for customers in the state. However, if Delmarva's SOS rates are artificially inflated by the above market costs of the BWW or NRG sales arrangements, competitive marketers will view Delaware as a shining opportunity to ratchet up their efforts to attract new customers.

Some SOS customers are likely to immediately opt out of SOS service simply for economic reasons. Other, more environmentally conscious, SOS customers may at first be willing to pay the wind tax to support BWW's project. However, even the most avid BWW supporter will opt for competitive retail supply options if and when competitive suppliers start to offer less expensive options that use a new generation of more efficient alternative power supply sources. Therefore, over time fewer and fewer Delmarva customers are likely to continue to purchase an SOS service whose cost is inflated by either the NRG or BWW proposal.

However, because of the must take provisions of the BWW and NRG proposals, Delmarva will not be able to reduce purchases from either BWW or NRG to reflect shrinking requirements of the SOS customer class. Instead, Delmarva will continue to purchase the overpriced energy and will have to sell any excess into the wholesale market at rates below its cost. Any loss incurred by Delmarva on such sales would likely be

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22 IC Report, p. 39.

recovered from the remaining SOS customers. However, while many customers will exercise their right to opt out of SOS service, there is one type of customer that does not really have that option. Competitive energy suppliers have, historically, chosen not to sell power to low income and credit poor electric consumers. Therefore, these captive SOS customers could be forced to bear the full burden of the State Agencies' decision to require Delmarva to enter into an uneconomic agreement with either NRG or BWW.[23]

D CONECTIV'S PROPOSAL FOR A GAS FIRED COMBINED CYCLE POWER PLANT WILL NOT EXPOSE DELMARVA AND ITS RATEPAYERS TO RATES BASED UPON THE VOLATILE NATURAL GAS MARKET.

The SOS rate increases of May, 2006 were caused, in part, by the fact that electric prices in the wholesale market reflected spot market natural gas prices. There was concern, not only with the fact that electric prices were high, but also with the fact that they would, in the future, continue to track volatile natural gas prices.

Those who do not understand Conectiv's proposal falsely assume that that it will expose SOS customers to the volatility of natural gas prices. However, Conectiv is sensitive to concerns regarding the relationship between electric and natural gas prices. The long term nature of the proposed PPA with Delmarva gives Conectiv the opportunity to hedge much of the cost of fuel for its proposed facility and to de-couple its proposed rates from the volatile short term natural gas market.

Therefore, under Conectiv's proposal, Delmarva and its ratepayers will not be exposed to prices that reflect the volatility of spot market gas prices. Instead, during the

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[23] Under 26 Del. C. §1010(c) the DPSC has the authority, but not the obligation, to protect captive SOS customers from bearing this entire burden by implementing a non-bypassable surcharge which would spread the burden of the uneconomic agreements to all Delmarva customers, including those that left SOS service and those that never took SOS service. Conectiv submits that the best option is for both the NRG and BWW proposals to be rejected so that there is no burden, either to be borne by captive SOS customers or to be spread among all Delmarva customers.

ten year term following the date that regulatory approval is received (the "Binding Contract Date") Conectiv's proposed capacity price will be fixed and its energy price, in base mode operation of the plant, will be adjusted annually only for the Gross Domestic Product Implicit Price Deflator ("GDP") and a coal based index ("Coal Index").[24]

The only connection between natural gas prices and the pricing in Conectiv's proposal is the one-time price adjustment that will occur on the Binding Contract Date when Conectiv will be able to enter into hedges for the long term power supply obligations. The one-time adjustment will correct Conectiv's proposal for any gas market changes occurring between the bid submission date and the day on which it will put its hedges in place.

However, even this one time adjustment does not expose Delmarva and its SOS customers to the volatility of spot market prices. The adjustment, as proposed, is equal to the ratio of (i) the average of the 60-month forward NYMEX Henry Hub gas prices ("Forward Gas Price") on the Binding Contract Date to (ii) the Forward Gas Price on December 20, 2006. Thus, while Conectiv wanted to ensure that its price reflected natural gas prices in effect on the Binding Contract Date, it made sure that that one-time adjustment to the bid price would be based upon long term indices of natural gas prices rather than upon the more volatile spot market prices. In addition, as indicated above, Conectiv made sure that any further adjustments to price would not be tied to changes in the price of gas.

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[24] As noted by the IC, Conectiv did propose a power supply segment above base load operation with prices based upon a natural gas price based index. However, since Delmarva will have the option of when to dispatch it must be assumed that Delmarva would only dispatch this segment when the system is stressed and such operation and price can be economically justified.

E CONECTIV'S PROPOSED GAS FIRED COMBINED CYCLE PLANT IS NOT ONLY ELIGIBLE FOR CONSIDERATION UNDER THE ACT, IT IS ONE OF THE PREFERRED APPROACHES UNDER THE ACT.

In June, 2006, after a six year rate freeze, Delmarva's SOS customers were exposed to the impact of competitive energy prices. Those customers saw their rates increase by approximately 60%. Part of the reason for the rate increase was the fact that regional short term wholesale electric prices were based, in part, upon the spot market price for natural gas used to fire generating units in the region. There was also some concern that continued reliance upon the short term regional electric supply market would unreasonably expose SOS customer to rates that reflected the volatility of the spot market for natural gas.

The Legislature passed the Act in response to the 60% rate increases. Some have argued that the Act indicts natural gas generation and that it requires Delmarva and the State Agencies to find a non-natural gas source of power supply for SOS customers. Such an interpretation of the Act could not be further from the truth.

While most of the focus in this proceeding has been around the Act's requirements for the RFP, the Act did not create the RFP in a vacuum. The critical mandate of the Act is the requirement that Delmarva conduct Integrated Resource Planning ("IRP") in which it

> "shall systematically evaluate **all** available supply options during a ten (10)-year planning period in order to acquire sufficient, efficient and reliable sources over time to meet its customer's needs at a minimal cost." Section 1007 (c)(1).

26 Del. C. §1007(c)(1) goes on to require that

> "[a]s part of its IRP process, DP&L **shall not rely exclusively on any particular resource** or purchase procurement process. In its IRP, DP&L shall explore in

detail **all** reasonable short- and long-term procurement or Demand-Side Management Strategies. ."

Thus, the IRP, of which the RFP is a part, requires Delmarva to consider all potential resources without any mention of an exception for gas fired facilities.

26 Del. C. §1007(d)(3) gives to the State Agencies the discretion to approve a PPA between Delmarva and the offeror that meets the 26 Del. C. §1007(c)(2) criteria "in the most cost effective manner". Conectiv's gas fired combined cycle facility fits squarely within two of the 26 Del. C. §1007(c)(2) criteria – it will be built on an existing brownfield and it will take advantage of existing fuel and transmission infrastructure. Thus, not only is Conectiv's proposed gas fired combined cycle plant eligible for consideration under the Act, it is precisely the type of facility that should be viewed very favorably.

F NOT ONLY WILL CONECTIV ADHERE TO THE TERMS OF ITS PROPOSED CONTRACT, IT HAS MORE INCENTIVE TO DO SO THAN EITHER OF THE OTHER BIDDERS.

There has been some suggestion by supporters of BWW or NRG that Conectiv will find some way out of its proposed commitment to provide gas fired generation at coal indexed prices. Conectiv wishes to make it clear that it does not enter into agreements with the intent of reneging when the market turns in an unexpected direction. The proposed PPA with Delmarva will be one of thousands of transactions that Conectiv will enter into with numerous counterparties in each year. While there is always a possibility that any one transaction may not turn out exactly as anticipated, that is merely one of the risks of being in the competitive business. Conectiv cannot hope to stay in

that business for very long if its counterparties believe that it will seek to terminate transactions that do not turn out exactly as expected.

In any event, Conectiv does not blindly enter into agreements which expose it to unreasonable levels of risk. Conectiv is required, by internal corporate policies, to adhere to risk mitigation parameters. Agreeing to sell power produced at a gas fired power plant at prices that do not reflect the fluctuating price of natural gas could, without proper precautions, be viewed as an unacceptable level of risk. However, tying the price of power to the spot price of natural gas is not the only way to address that risk. In this case, where Delmarva is seeking a long term power supply contract, Conectiv will be able to partially hedge its risk by adding long term gas supply arrangements to the gas supply portfolio it maintains to meet the requirements for all of its gas fired power plants.

Conectiv cannot know exactly how much natural gas will be used during the term of the PPA. Thus, it will continue to rely upon its existing portfolio of natural gas options, and to a more limited and rare extent, upon sources of gas purchased on the spot market. However, because the incremental gas requirements are small as compared to the amount hedged with long term gas supply and the current natural gas managed for its existing fleet of combined cycle power plants, Conectiv is able to protect Delmarva's SOS customers against highly volatile gas prices by proposing to adjust its prices by the less volatile GDP and Coal Index. The proposed PPA, which relies upon long term gas hedges and price adjustments tied to the GDP and Coal Index, does not expose Conectiv to unacceptable levels of risk.

Notwithstanding the fact that the proposal, as submitted, satisfies internal prohibitions against incurring unacceptable risk, some have suggested that changes in the

gas markets without corresponding price increases for Conectiv could lead to a Conectiv bankruptcy with a subsequent rejection of the PPA in bankruptcy court. Such a suggestion fails to understand the fact that the proposed PPA constitutes a relatively small component of Conectiv's annual transactions. Even if there were problems with the PPA, they would not, in and of themselves, drag the company into bankruptcy. And even if Conectiv were unable to fulfill its obligations under the PPA, whether because of a bankruptcy or otherwise, its guarantor, PHI, would be obligated to make Delmarva whole under the default terms of the PPA. This financial guarantee from a creditworthy entity like PHI is something that has not been provided by either of the other bidders.

Finally, there has been a suggestion that, after execution, Delmarva might voluntarily agree to changes to the PPA to accommodate an alleged hardship of its affiliate. Conectiv acknowledges that there are times when parties to a commercial transaction will agree to modifications, if required, to relieve one of the parties from a particularly burdensome unanticipated condition. Delmarva could be confronted with just such a circumstance affecting any of the three offerors. And even if Delmarva were inclined to entertain suggestions for modifications from BWW or NRG, the FERC's rules strictly prohibit any such favorable treatment by Delmarva towards its affiliate, Conectiv. The FERC has recently exercised its authority in this area by levying penalties of many millions of dollars against violators.[25] Delmarva and Conectiv would be foolish to even consider any action that could expose their companies to such penalties by agreeing to some "sweetheart" modification to the PPA.

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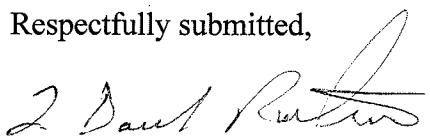
[25] See e.g. In Re SCANA, Docket No. IN07-3-000, Stipulation and Consent Agreement, 1/18/07; and In re PacifiCorp, Docket No. IN07-7-000, Stipulation and Consent Agreement, 1/18/07.

III

CONCLUSION

In light of the foregoing, Conectiv submits that the consultants should be commended for doing their job well and giving the highest ranking to the Conectiv proposal which approximates the market, uses a proven, reliable technology and provides Delmarva and its customers the flexibility to take full advantage of opportunities presented by demand side management and customer sited renewables. Conectiv appreciates the opportunity to participate in this process and looks forward to providing service to Delmarva and its customers under the terms of its proposal.

Respectfully submitted,



I. David Rosenstein, General Counsel
Conectiv Energy Supply, Inc.

ing products to reflect their carbon footprint, starting with tens of thousands of Tesco-branded food and clothing products.

Sir Terry offered no specifics about when the public would see such labels in Tesco stores. The plan is for the company to help create a Sustainable Consumption Institute, which will develop a universal carbon measure, but that could take years. A few other companies are

raw materials. The next-biggest energy drain is the retail environment (think of all those brightly lighted malls), followed by factory operations and, finally, transportation — almost a complete inversion of what Timberland had assumed.

"The vast majority of our carbon footprint comes before we even make the shoe," Mr. Swartz said.

Once companies understand what goes on in their supply chains, there

finished product. A 0 rating means that less than 4.9 kilograms of carbon equivalents were generated, while a 10 signifies 100 kilograms or more. (One hundred kilograms, or 220 pounds, is roughly the equivalent of burning 11 gallons of gasoline.)

The tags also rate chemical use and the proportion of recycled, organic or renewable materials that were consumed. Green tags are being included with just five shoe models, but the company's goal is to tag all its shoes and clothing by 2009.

The information is not very useful, however, unless customers have something to compare it with. If a pair of Timberlands rates a 2 on climate impact, that's great. But how does it compare with your Nikes?

Tesco is trying to devise industry guidelines, akin to standardized food labels in the United States. A commonly accepted measure, Sir Terry said, "will enable us to label all our

products so that customers can co
pare their carbon footprint as easi
as they can currently compare the
price or their nutritional profile."

Timberland said it hoped to broa
en its green index into an indust
initiative. Mr. Swartz said that if
could sign up 10 or 12 companies, ot
ers might feel pressure to follow sui

Gary Hirshberg, a co-founder ar
chief executive of Stonyfield Farr
praised the efforts of Timberlar
and Tesco. But ultimately, he sai

NYT 3/7/07 p. A5

Across the Atlantic, Slowing Breezes

By JAMES KANTER

IF a heavy reliance on fossil fuels makes a country a climate ogre, then Denmark — with its thousands of wind turbines sprinkled on the coastlines and at sea — is living a happier fairy tale.

Viewed from across the Atlantic, Denmark is an environmental role model. The country is "what a global warming solution looks like," wrote Frances Beinecke, the president of the Natural Resources Defense Council, in a letter to the group last fall. About one-fifth of the country's electricity comes from wind, which wind experts say is the highest proportion of any country.

But a closer look shows that Denmark is a far cry from a clean-energy paradise.

The building of wind turbines has virtually ground to a halt since subsidies were cut back. Meanwhile, compared with others in the European Union, Danes remain above-average emitters of the greenhouse gas carbon dioxide. For all its wind turbines, a large proportion of the rest of Denmark's power is generated by plants that burn imported coal.

"We are losing ground," said Anne Grete Holmsgaard, the energy spokeswoman for the opposition Socialist People's Party in Denmark. "It's terrible, actually, that we're not that green as we should be."

Danes find that costs, weather and politics all hurt wind power.

The Danish experience shows how difficult it can be for countries grown rich on fossil fuels to switch to renewable energy sources like wind power. Among the hurdles are fluctuating political priorities, the high cost of putting new turbines offshore, concern about public acceptance of large wind turbines and the volatility of the wind itself.

But countries like Denmark are far ahead of the United States in overall use of green electricity, mostly because of government support.

"Europe has really led the way," said Alex Klein, a senior analyst with Emerging Energy Research, a consulting firm with offices in Cambridge, Mass., and Barcelona. "Very progressive policies by the Danes and Germany means the wind industry was able to evolve and build up scale."

Mr. Klein said that Europeans generate about 75 gigawatts, or 10 percent, of their electricity from wind, small hydropower, biomass, solar and geothermal sources. Americans generate about half that amount from renewable sources, or about 3 percent of their overall consumption, he said. In wind power alone, Mr. Klein noted, the European Union nations generate about four times more than the United States.

Some parts of western Denmark derive 100 percent of their peak needs from wind if the breeze is up. Germany and Spain generate more power in absolute terms, but in those countries wind still accounts for a far smaller proportion of the electricity generated. The average for all 27 European Union countries is 3 percent.

But the Germans and the Spanish are catching up as Denmark slows down. Of the thousands of megawatts of wind power added last year around the world, only 8 megawatts were installed in Denmark, said Preben Maegaard, the executive director of the Nordic Folkecenter for Renewable Energy, a nonprofit group.

If higher subsidies had been maintained, he said, Denmark could now be generating close to one-third — rather than one-fifth — of its electricity from windmills.

Steffen R. Nielsen, a supply expert at the Danish Energy Authority, said that reducing the subsidies had been necessary because some turbine operators were overcompensated under the previous system.

Since the changes, which began in 1999 and were mainly carried out after 2001 by the center-right government, Denmark has been pressured to do more to meet its environmental commitments under the Kyoto Protocol.

In January, in a move that opposition politicians described as a U-turn, the government announced plans to double the amount of renewable energy used in Denmark by 2025, with much of that likely to come from wind.

Mr. Nielsen and other energy officials said that to meet those goals, Danish politicians must negotiate how high to set rates for some wind operators and how much money to allocate for research and development.

Besides political hiccups, there have been technical setbacks, as Danish wind operators, hoping to bypass local objections and take advantage of stronger, steadier air currents, have tried to build giant turbines at sea (some are now more than 300 feet high and have blade assemblies nearly that wide). In one case, in 2004, turbines at Horns Reef, some 10 miles off the Danish coast, broke down, their critical equipment damaged by storms and salt water.

Vestas, a Danish manufacturer, fixed the problem by replacing the equipment at a cost of 38 million euros. But Peter Kruse, the head of investor relations for Vestas, warned that the lesson from Horns Reef was that wind farms at sea would remain far more expensive than those on land.

"Offshore wind farms don't destroy your landscape," Mr. Kruse said, but the added installation and maintenance costs are "going to be very disappointing for many politicians across the world."